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A Universal Basic Pension for Europe's  
Elderly: Options and Pitfalls\*

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**Abstract** – In this article we explore the implementation of a European basic pension (BP) scheme as a means of combating financial poverty of Europe's elderly. As earlier contributions already outlined the practical and ethical arguments that favour a European basic income, we assume that a basic income is philosophically and ethically justified and that the European Union has a crucial role to play in its implementation. In this article, we broaden the scope of the discussion to examining the various (and often technical) options, difficulties and pitfalls associated with the practical design and implementation of a harmonised European minimum income scheme. We first offer an overview of minimum income guarantees for the elderly in Europe. Second, we make a detailed assessment of the issues involved in the design of a BP. Third, we shed some light on the European dimension of this proposal and conclude with a sketch of three possible BP scenarios. Our findings confirm that it is one thing to be in favour of BP, but another to design a realistic and politically feasible proposal.

**Keywords** – basic pension, European Union, minimum income guarantees, pension reform, poverty.

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## 1. Introduction

In 2007, the European Commission designated 2010 as the “European Year for Combating Poverty and Social Exclusion.” While poverty persists in all member states of the European Union (EU), the elderly remain a group at particularly high risk within half of the European welfare states. Next to this, Ferrera (2009) has recently called for strengthening Europe’s “social space” through the nesting of the national welfare states within the EU. One important element in this nested structure consists of supranational “social sharing schemes” – which are at present largely underdeveloped. A European basic pension (BP) could constitute such a sharing scheme. These elements provide the starting point for exploring the implementation of a European BP scheme as a means of combating financial poverty among the elderly in Europe.

In this article, we discuss important options and pitfalls policymakers must face when introducing such a BP. The aim is thus conditional: *if* a BP for the elderly is to be implemented, *then* what form could it take? As we shall see in the next sections, the design of such scheme is confronted with several complexities. What may look like technical details at first sight will later appear to be both technical *and* moral choices with important consequences. The specific design of basic income (BI) schemes still offers tough nuts to crack, and with this article, we hope to move the BI discussion beyond a purely theoretical debate.

As a starting point, three assumptions must be kept in mind. First, we use the well-known standard definition of BI, as propagated by Philippe Van Parijs (2004, p. 8): “A basic income is an income unconditionally granted to all on an individual basis, without means test or work requirement.” We assume that this BI is philosophically and ethically justified, as has been argued by, for instance, Van Parijs (1995) and Raventós (2007). In what follows, we conceive of a basic pension as a BI targeted at the elderly. Second, we assume that if it is to succeed, every proposal for a BI in the EU must start from existing policy arrangements and political praxis.<sup>1</sup> Therefore, before embarking on a discussion of policy options, we first present an overview of already existing minimum income guarantees for the elderly in the EU. The assumption also implies that we take account of the subsidiarity principle in the EU with respect to social policy issues (i.e., social policy remains firmly a national responsibility).<sup>2</sup> However, as argued by Atkinson et al. (2002, pp. 229–230), we assume that there is – at the European level – enough room to manoeuvre as it comes to setting minimum standards to

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<sup>1</sup> See the concept of the *nirvana fallacy* outlined by Demsetz (1969).

<sup>2</sup> A general discussion of the subsidiarity principle in the EU can be found in Barber (2005).

be met by national social policy actions. In other words, we suppose that the EU could for example set the minimum level of guaranteed income benefits for persons above a certain age to be provided by national governments, leaving the *method* of delivery to member states. Finally, the reduction of financial poverty is expected to be one of the main merits of BI.

Although we believe that a strong moral case for implementing a BI for other groups in society such as children can be made, there are some good reasons to restrict access to BI in the first place to the elderly of the EU. First, pensioners face a high average risk of living in poverty throughout the EU, on average 19 percent of those aged 65 and over, compared to 16 percent of all age categories (see Table 1). Nevertheless, the range is quite large, from 5 percent of the elderly in the Czech Republic, to over 18 percent in Bulgaria and Denmark, and close to or more than 30 percent in the United Kingdom, Latvia, Estonia, Lithuania and Cyprus. They even face the highest degree of risk of all the age categories in half the EU's member states (Eurostat, 2009).<sup>3</sup> Second, social transfers are particularly important for the elderly. Activation measures such as those designed to increase skill levels and employability may be preferred for the younger generations, but for the already retired, socially provided pensions are the most important source of income maintenance (Atkinson et al., 2002, p. 230). In other words, pensioners mostly depend on income transfers to stay out of poverty. Third, due to the age restriction, possible negative labour market effects (i.e., people cutting working time or quitting jobs when receiving a BI) will be limited. Finally, as we show in the next section, almost all EU member states already have some form of minimum income guarantee for the elderly. Such schemes can serve as a realistic starting point for the introduction of a European universal BP.

In this article, we offer an overview of the issues involved in the design of a BP scheme in the EU. Van Parijs and Schokkaert (2003, pp. 258–259) spelled out the ethical and instrumental arguments in favour of a European guaranteed minimum pension. However, whereas they explicitly did not go into “the details of the introduction of such minimum income guarantee,” we begin at precisely that point. In doing so, we pay more attention to the various options that are open to policymakers than previous articles about minimum income guarantees for the EU's elderly (Atkinson et al., 2002) and address the specific considerations

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<sup>3</sup> Data refer to 2007 (most recent available data for the entire EU is 13/02/2009). The EU's official at-risk-of-poverty indicator is used. Persons are at risk of poverty if their total net disposable household income is below 60 percent of the median of the country in which they live. Household incomes are “equivalised” to reflect economies of scale for persons living together and the relatively lower cost of children as compared to adults. See Table 2 in the Appendix.

that must be made in light of recent and future enlargement of the EU. In addition, we present an original and systematized overview of the minimum income guarantees for the elderly in each of the 27 EU member states. To our knowledge, no such up-to-date overview exists in the current literature. Finally, our article lays the foundation for examining further the social and fiscal consequences of implementing a BP scheme under different scenarios, for instance by using the European microsimulation model EUROMOD. Since all details of a policy design must be decided upon for such a simulation, one must first review them and then consider the alternatives that could lead to radically different outcomes in terms of covered population and poverty alleviation. However, it is not our objective in this article to propose *solutions* for all problems and considerations raised.

The article proceeds as follows. In the second section, we present an overview of the current minimum income guarantees across the EU. Although most countries provide a specific minimum income guarantee for the elderly, target groups and entitlement conditions vary considerably. The implementation of a BP for the elderly will be a greater and more demanding step for some countries than for others. No single country provides a BP as defined here. In the third section, we turn to the issues in the design and implementation of a European universal BP and the various options available to policy makers. In the fourth section, we elaborate on those issues that relate directly to the European character of the BP scheme. In the fifth section, we single out three scenarios for the design of a European BP, followed by a brief conclusion.

## **2. An Overview of Minimum Income Guarantees for the EU's Elderly**

In our view, the eventual implementation of a BP in the EU will be realistic only insofar as the social security provisions that characterize European welfare states are taken into account. Therefore, before we discuss the options and pitfalls in the design of a European BP, we present an overview of existing minimum income guarantees for the elderly across EU member states.

Pension systems in most EU member states involve a number of different programmes, not only because within many member states different schemes exist for different groups of persons (e.g., farmers, employees, the self-employed and civil servants), but also because in most countries persons (have to) participate in different programmes at the same time (e.g., a public and a private programme). Furthermore, over the past decades complexity has been further enhanced by what Natali (2004) coined the “hybridisation” of pension systems in

Europe. Whereas in post-war Europe it was easier to distinguish between two or three kinds of pension systems, nowadays more and more hybrids fill the pension landscape. These hybrids combine some central techniques and instruments of the post-war clusters. Common to these hybrids is an evolution towards partial privatisation and the integration of more programmes into the pension system. Nevertheless, hybridisation does not necessarily mean (institutional) convergence (Hinrichs, 2001).

As a result, a wide range of ways to classify and describe pension systems can be found in the literature (Goedemé and Raeymaeckers, 2008; Hinrichs, 2001; Immergut et al., 2007; Natali, 2004; OECD, 2007). Due to its comprehensiveness, in this article we follow the terminology outlined in Immergut and Anderson (2007, pp. 21–23). A distinction is made between three pillars: a public sector pillar (the “first pillar”), an occupational sector pillar (the “second pillar”) and an individual private sector pillar (the “third pillar”). Every pillar may be composed of different tiers. In the first pillar, the first tier can consist of a minimum guaranteed pension (with or without a means-tested part) and the second tier of an earnings-related component. In the second and third pillar, in the first tier there can be a mandatory scheme, in the second a subsidised voluntary scheme and in the third a completely voluntary scheme without public subsidies. What is of relevance here, however, is that in almost every EU country some regulation can be found to guarantee a minimum income to the elderly, be it as a part of the pension system or as a part of the general social assistance scheme, and be it with or without a means-test (see Table 2 for an overview). In general, such regulations are limited to the first pillar (first tier) and the general social assistance scheme.

Four ways to guarantee a minimum income to the elderly can be discerned, based on the target population and entitlement conditions.

1. A *minimum pension* in a contributory scheme for persons with enough pension entitlements, without a means-test. This regulation can be found in the first pillar’s first tier,<sup>4</sup> or it can be part of a broader earnings-related scheme that comprises the first pillar’s first and second tier.<sup>5</sup> In half the cases the scheme is financed exclusively by contributions, in the other half the scheme is financed by

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<sup>4</sup> Cyprus, Czech Republic, Estonia, France, Greece, Ireland, Lithuania, Luxemburg, Poland and United Kingdom.

<sup>5</sup> Austria, Belgium, Bulgaria, Hungary, Latvia, Malta, Portugal, Slovenia and Spain. In Denmark, apart from the “basic income” in the first tier, a minimum pension can also be found in the second tier’s earnings-related scheme.

contributions and government subsidies. Only in Lithuania is it financed exclusively by government resources. To the extent that the first pillar comprises differing schemes for different socioeconomic groups, conditions and availability may not be the same for all pensioners.

2. A *pension supplement* for persons with a low pension, with contributory conditions and a means test (e.g., Denmark [income-tested part of the *Folkepension*], Greece, Italy and Slovenia). Also this regulation is located in the first or second tier of the first pillar.

3. A guaranteed minimum income to which the elderly are entitled from a certain age. This is a scheme for which no minimal contribution record is necessary. There are three kinds of guaranteed minimum income schemes in the EU, some with and others without a means test. In Denmark and the Netherlands a BI is available to all persons aged 65 and over. In both countries, the benefit depends on the number of years one has resided in the country. This BI can be situated in the first pillar's first tier. In other countries such as Cyprus, Estonia, Latvia and Sweden a conditional minimum income is available for the elderly. Apart from residence conditions, eligibility is also "pension-tested". Usually, the amount does not vary by other sources of income. Almost all other countries provide a means-tested minimum income to the elderly. In most cases eligibility and the amount of the benefit do not depend on the number of years of residence. Rather, in these schemes the amount of the benefit is typically equal to the difference between the threshold and the part of the household's income that is taken into account. In most cases it concerns a scheme integrated into the general social assistance scheme, but with some specific conditions for the elderly. In others (Belgium, Cyprus, Finland, Greece, Ireland, Italy and Malta) it is rather part of the pension system's first pillar. In almost all countries, guaranteed minimum incomes are exclusively financed by government subsidies. However, in Finland, Italy, the Netherlands and Slovenia, the minimum income is financed by both taxes and contributions.

4. In only a few countries there is no specific scheme for elderly persons without the necessary pension entitlements to draw a

(minimum) pension. Nevertheless, in all these countries a *general social assistance scheme* is available (Czech Republic, Luxemburg, Poland and Romania). Romania is the only country in which the general social assistance scheme is the *only* source to guarantee a minimum income to the elderly. In all three countries, this scheme is financed by taxes. Of course, in almost all EU countries a social assistance scheme is present, but in countries where special arrangements for the elderly exist, this scheme is of marginal relevance for the elderly, except for very specific groups (e.g., in cases of residence requirements for a guaranteed minimum income).

From this short overview it can be concluded that up to now, an unconditional BP does not exist anywhere. The Netherlands' AOW (Algemene Ouderdoms Wet) and the Danish Folkepension come closest. Yet, in both countries the amount is conditional on the number of years of residence between the ages of 15 and 65, 25 and 65 respectively. For each year missing, the benefit is reduced by 2, respectively 2.5 percent.<sup>6</sup> Nonetheless, in a large majority of EU countries special regulations for the elderly exist to provide them with a guaranteed minimum income. As we have already mentioned in our introduction, these existing schemes should serve as a realistic starting point for the implementation of a BP in the EU, an exercise in which we engage in the next section.

### 3. Issues in the Design of a Universal Basic Pension

What should a universal BP for the elderly in the EU look like, and how can it be made feasible? With Atkinson (1998), we believe that a universal BP cannot be achieved by individual member states, due to fiscal competition. Therefore, action at the EU level is not precluded by the principle of subsidiarity, especially if the EU's role is limited to setting minimum standards, leaving the method of delivery to member states (Atkinson et al., 2002).

In order to find out how a universal BP scheme *should* be designed, it is helpful to discuss the various possibilities with regard to how such a BP scheme *could* be designed. Many of the following issues may seem largely technical, but the choice for one option or another may have significant consequences in terms

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<sup>6</sup> Additionally, a limited income test is applied in Denmark. The benefits of high income earners are thus reduced (more or less 1% of pensioners in 2002) (Green-Pedersen, 2007, p. 469).

of population covered, poverty alleviation<sup>7</sup> and the financial cost of the BP scheme. When designing a European minimum income scheme for the elderly, policymakers must make a decision on each of the following issues: 1. the group that will be covered and the precise entitlement criteria; 2. the level of the benefit and how this will be determined; 3. the way the scheme will be financed; 4. all kinds of issues with regard to the organisation, administration and management of the scheme; and 5. the exact role of the European level in general and the EU in particular. In what follows, we discuss the first four of these issues. In the next section we elaborate in depth on the European dimension of the BP proposal.

### 3.1 *The Target Group and Entitlement Criteria*

In designing a BP scheme for the elderly, it is necessary to define who the elderly are. Where should the line be drawn? All persons above a certain age? If so, which age? Sixty-five and over as Atkinson et al. (2002) propose? Although such a choice would be in line with actual age thresholds in many existing minimum income schemes,<sup>8</sup> in some countries lower age limits are in use (e.g., Estonia, Hungary, Lithuania, Malta, Slovak Republic and United Kingdom), whereas in others higher age limits are (also) applied (e.g., Bulgaria, Latvia, Portugal and United Kingdom). However, one could also opt for an age limit that takes changes in the age structure into account. Such a dynamic age limit could also be a solution for the wide cross-sectional variation in age structure in the EU. For instance, it could be defined so that the BP would cover a certain percentage of the population (say, the eldest 20 percent in a country). In such a case a further question could be whether the BP should cover the eldest 20 percent of the EU population or of each member state. Of course, the choice has tremendous consequences with regard to who will ultimately benefit (the most) from such a scheme. Furthermore, this choice will be closely linked to matters of financing (see section 3.3 of this article).

Defining an age limit would suffice if policymakers would opt for a truly unconditional BP (and not merely a minimal income guarantee). However, for many countries this would mean a radical change in welfare provision, maybe too radical a change to be politically feasible, most certainly if the implementation takes place in one movement. Therefore, policymakers could specify restrictive entitlement criteria. A first issue would likely be how to treat migrants who have not spent their entire career in the country in which they

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<sup>7</sup> A quantitative illustration for five West European countries can be found in Atkinson et al. (2002).

<sup>8</sup> Belgium since 2009, Denmark since 2004, Cyprus, Finland, France, Germany, Greece, Italy, the Netherlands, Portugal, Slovenia, Spain, Sweden and the United Kingdom.



apply for a basic pension. For instance Dutch and Danish policymakers have made the (level of the) BP for the elderly dependent upon the number of years of residence in the country. Since such a restriction is driven by the concern about “social tourism” (Kvist, 2004, p. 306), or at least finding some balance between contribution and benefit, it is closely related to the financing of the BP and the level of the benefit. We return to this issue in the next section.

One step still further away from the BP proposal is to make entitlement dependent on the income at someone’s disposal. Such an income test could be more or less strict with regard to the kind of income that is taken into account (e.g., only pension income, monetary income in general – including pensions, earnings, welfare – or all financial and nonfinancial means). Furthermore, the generosity of the test depends on the threshold above which someone is no longer entitled to the income benefit. Last but not least, there are different possibilities with regard to the unit of assessment. Does one take into account only the income of the person that applies for a minimum benefit or also that of others (the partner, household, family, etc.)? If the latter option is chosen, the question is how and to what extent the income of others should be accounted for.

One could think of many other entitlement criteria (e.g., having paid a certain amount of contributions or taxes – depending on the financing mechanism), but the more criteria that are added, the less the scheme looks like a BI scheme and the less likely it may seem to convert such a scheme later on into a universal BP.

### 3.2 *The Benefit*

With regard to the BP itself, many choices must be made. However, if policymakers stick to a real BP scenario, the options are more limited. We first discuss the issues involved in such a scenario, then we review some alternatives.

To begin with, the level of the benefit must be defined. First, the BP could be a fixed amount. However, it should at least be adapted over time in line with changes in prices. To avoid becoming irrelevant in the future, the benefit must also be linked to the evolution of the average standard of living. Therefore, it could be defined as a percentage of average or median earnings or (equivalent) household income.<sup>9</sup> Second, it could be made relative to the standard of living within each member state or to the standard of living in the EU as a whole.

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<sup>9</sup> The difference is quite important. Average respective median earnings could remain constant, while household income increases. This is the case, for instance, when there is a rise in the relative number of two-earner families. On the other hand, data on earnings are generally more readily available than household income data.

Whereas the former option could encourage social tourism, the latter could make the benefit largely irrelevant in the richer countries and make it higher than the average earnings in the poorer member states.<sup>10</sup> One could also opt for a mixed approach (say, half the benefit is relative to the national standard of living, half of the benefit is relative to the European living standard).<sup>11</sup>

A second point with regard to the level of the benefit concerns the treatment of household composition and economies of scale. If – as in the proposal and definition by Van Parijs (2004) – the BP is fully individualised, then each person receives exactly the same amount. However, two persons living together in the same household each receiving the same benefit can do and have more than a one person household with exactly half that income. For instance, an apartment for a couple is not necessarily more expensive to buy or rent and the cost for heating is the same. In other words, there are economies of scale. Therefore, it could be argued that – if the BP is to offer the same material standard of living to all who receive it – the benefit must be higher for individuals living in a single-person household than for persons who share a household with others. This is the case in the Dutch AOW scheme at present, for instance. If an equivalence scale is used to correct for economies of scale, the question is how the scale will be established. In research on income inequality and poverty, different methods are in use, and studies are inconclusive about the precise extent of the economies of scale at play (Buhmann et al., 1988; Coulter et al., 1992; de Vos and Zaidi, 1997). Nonetheless, many studies that are concerned with poverty and income inequality in Eastern Europe, as compared to Western Europe, agree that economies of scale are generally lower in Eastern Europe than in Western Europe (Atkinson and Micklewright, 1992; Förster et al., 2005; Brandolini, 2007). Furthermore, economies of scale can vary over time. Independently of the choice for a European or a national BP, this issue must be addressed with care. As Atkinson et al. (2002, pp. 236–237, 240–241) have shown, the choice for one equivalence scale or another may have a large impact on the outcome of pension reforms. One could start from the equivalence scales that are implicit in existing minimum income schemes, but these could be the result of budgetary and

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<sup>10</sup> Fahey (2007) illustrates the wide differences between member states. These do not necessarily entail widely differing views on what constitutes a desirable standard of living (European Commission, 2007).

<sup>11</sup> If a European perspective is used (be it a fixed amount or an amount relative to a European average), it is necessary to take account of the variation in prices among member states. Otherwise, with the same basic pension, one could buy more goods and services in one country than in another. There exists a whole body of literature on the opportunities and limits of the use of purchasing power parities to take account of these price differences (Milanovic, 2005; Atkinson et al., 2002, pp. 233–237).

political concerns as much as concerns with economies of scale.<sup>12</sup> In any case, the issue cannot be ignored: even if each person receives exactly the same amount (implicitly), an equivalence scale is used, i.e., a scale that assumes there are no economies of scale.

Essentially, a BP does not depend on previous contributions, nor on present income. Nevertheless, policymakers could introduce a European BP scheme in several steps to make it more palatable. If so, they could first introduce a guaranteed minimum income in accordance with new European criteria and then change the guaranteed minimum income to a BP some years later. In this two-step approach, the first step could involve a reform towards what we termed a “conditional minimum income.” In such a scenario, the Czech Republic, Luxembourg, Poland and Romania should introduce a (pension-tested) guaranteed minimum income specifically for the elderly and many other countries should convert their means-tested guaranteed minimum income into a pension-tested guaranteed minimum income.<sup>13</sup> The amount of the BP in Denmark and the Netherlands, as well as the conditional minimum income in all other countries, should already be brought in line with the new BP scheme. In a second step all conditional income schemes could be converted to real BP schemes. Furthermore, if the scheme is to be a truly European scheme, residence conditions could be removed or restricted to residence in EU member states. Of course, the desirability of the latter depends on how the scheme is to be financed and the way the benefit level is defined (national or European).

### 3.3 *Financing*

How is the European BP to be financed? The BP could be integrated into the first pillar of the pension system or be set up as a separate scheme with a separate financial structure. If additional sources must be found by introducing a new tax or social contribution, policymakers should define the tax base (e.g., property, pension income, earnings, consumption) and the tax unit (e.g., the individual, the household). Some previous proposals for a BP are accompanied by the

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<sup>12</sup> See, e.g., the discussion of *official* poverty lines in Sen (1983). The discussion does not end here. If an equivalence scale is used and each partner of a household is given the same amount, it is assumed that household members share the household income (or at least collective costs) equally. The common assumption of equal shares in most cases does not correspond to reality. An overview of the literature can be found in Burton et al. (2007).

<sup>13</sup> These countries are Austria, Belgium, Bulgaria, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Malta, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden and United Kingdom (Table 1). The pension test should be such that vertical efficiency (extent to which leakage of transfers to those above a certain threshold is restricted) as well as horizontal efficiency (extent to which all those below a certain threshold receive the transfer) are maximised (Atkinson, 1998, pp. 121–123).

suggestion to finance it with a flat tax (Atkinson, 1995; Levy et al., 2007). However, it could also be financed by a regressive or a progressive tax. Such choices could of course (partly) offset or reinforce the poverty and inequality-reducing effects of a basic pension.<sup>14</sup> The BP could be financed on a funded basis, a pay-as-you-go basis, or a mix of both. In the case of funding, only *collective funding* is an option since the level of the pension is not dependent on previous contributions of the individual. However, a choice for funding (as the only financing mechanism) limits the possibility of introducing the BP in a short time span since one would have to wait until a considerable capital has been built up. Furthermore, it excludes the possibility of intergenerational risk sharing and thus would be of the defined-contribution type (at the cohort level). As such, it could be a guarantee only of not being much poorer than other pensioners. On the other hand, such a scheme would not offer a guarantee against poverty in relation to the entire population. Therefore, a genuine income guarantee is of the defined-benefit type, which requires intergenerational risk sharing and, consequently, includes at least an important pay-as-you-go component.<sup>15</sup>

A special point of attention for European policymakers should be the way in which the BP will be treated by national tax and social security systems. If policymakers would opt for treating them the same as pensions are treated, then European elderly will have completely different net benefits at their disposal, even if they would initially receive exactly the same nominal BP. As Verbist (2006) has shown, the treatment of pensions by Europe's tax systems varies a lot throughout the EU with important consequences for the relative income position of the elderly in each member state. If completely left to national governments, governments not in favour of the BP might finance the scheme by simply taxing benefits away. In other words, it must be decided to what extent European policymakers define the way the BP is to be financed and to what extent it will be financed using national and European financing mechanisms. We return to this issue in the next section.

A last point to look at are changes in the intergenerational distribution of incomes. A budget neutral implementation of a universal BP may imply a compensation by new financial resources. It would be unfortunate if new or increased taxes would push younger households (with children) under the

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<sup>14</sup> Not only the progressivity of the tax, but also the choice of the tax base (income or consumption, and the kind of income and consumption that is taxed) largely affects the impact of the entire policy change on poverty and income inequality (Gemmell and Morrissey, 2005).

<sup>15</sup> Pay-as-you-go financing does not preclude financing primarily on the basis of intragenerational redistribution – as Schokkaert and Van Parijs (2003) have defended in the case of a guaranteed minimum. The guaranteed minimum could be financed by a tax on (high) pensions in the first place.

poverty line, especially if the introduction of the measure would be motivated by reducing poverty in the first place.<sup>16</sup> Even a progressive tax could have such negative effects. In other words, the issue of financing should be treated with care and caution, even – or rather, especially – if this is entirely left to the EU's member states.

### 3.4 *Issues in the Organisation, Administration and Management of the BP*

Since fiscal competition is less of a concern in this area, as long as the principles of good governance are respected, matters of organisation would probably be left to national governments. Issues involved are the choice of the institution that will be charged with the administration of the BP scheme and the extent of decentralisation, for instance. However, some other issues may attract the concern of European policy makers. For instance, what role should the social partners play? Will their role be in line with national customs with regard to administering social security institutions and the control of financial flows? To what extent could they negotiate the level (and timely upgrades) of the benefit?<sup>17</sup> Not only must the role of social partners in determining the level of the benefit be defined, but also the role of others. Who will ultimately determine the BP scheme? What role is left for national governments and parliaments? What should be the role of the various EU actors (Commission, Council and Parliament)? However, if payment of the BP would come straight from the EU and not pass through either national or subnational governments – as in the proposal of a "Euro-Stipendium" by Schmitter and Bauer (2001), the administrative capacities of the EU should obviously be considerably enhanced and European policymakers should consider all aspects related to the administration and management of the BP scheme. The extent to which this option can be reconciled with the principle of subsidiarity would certainly be subject to discussion. Irrespective of the choices one makes, it becomes clear that the *administrability* of a European BP, i.e., the extent it can be "administered in a practical and efficient manner in accordance with its primary objectives and within existing constraints," requires careful analysis (De Wispelaere and Stirton, 2007, p. 524). This is even more so if entitlement would be subject to some form of means or pension test or if people are not required to apply for a BP when it is

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<sup>16</sup> Levy et al. (2007, p. 229) write that simulating the effects of a universal child benefit financed by a general flat tax on gross incomes (including pensions) could result in lower child poverty but a higher tax burden for persons on already low pensions. They conclude: "This indicates that financing a child BI with a general flat tax is not a practical proposition on its own. Other financing mechanisms, perhaps using existing tax bases and schedules, would be more appropriate."

<sup>17</sup> See Crouch (1999) for a discussion of the role of social partners in the administration of social insurances.

granted automatically. An automatic procedure could significantly limit non-take up and stigma associated with means-tested benefits (van Oorschot, 1994; Atkinson, 1998, pp. 131–133; Hernanz et al., 2004), but requires significant administrative capacities.

If the BP scheme is to be implemented, policymakers should first consider carefully how it will interact with existing pension schemes, social assistance arrangements and – as we pointed out earlier – the tax system. At least three issues need special attention: the replacement of existing schemes; derived rights; and the treatment by the tax system.

To begin with, in his discussion of the BI/flat tax proposal, Atkinson (1995, p. 2) considered a BI that would replace all social security benefits. Of course, the effect of the reform on the income situation of pensioners is largely influenced by the extent to which existing pension arrangements would be replaced. Would it replace minimum income guarantees and leave pension schemes on a contribution basis untouched? Or, would it also replace (parts of) (earnings-related) first-pillar pension schemes? Such differences not only influence the effect on the income situation of the elderly, but also the cost of the benefit programme and the most appropriate (or logical) way it is to be financed. For instance, a partial replacement of a scheme financed by social contributions with a universal scheme could entail a change to financing by taxes (and a decrease in necessary social contributions). Furthermore, if the BP is also to replace the disability scheme (for persons above a certain age), it would be desirable to foresee some adaptation of the basic pension's benefit level to different needs.

Next, in some countries beneficiaries of social assistance (or the minimum income guarantee for the elderly) are entitled to "derived rights" because of receiving social assistance (e.g., social rent, health care at a reduced price, etc.). If this is no longer the case with the BP scheme, then some at the lower end of the income distribution might end up worse than before the reform (as illustrated by Atkinson et al., 2002, p. 232).

Finally, as we mentioned in section 3.3, a different treatment by the tax system could lead to very different outcomes. For instance, in France and Belgium the guaranteed minimum income for elderly persons is exempted from taxes, but pensions are not (although they have a favourable tax treatment). Nevertheless, if the scheme would be treated as a regular pension, then a BP as high as the guaranteed minimum income in gross terms, could be lower in net terms (Verbist, 2006, p. 83).

As becomes clear, it is not sure that no one would lose with the introduction of a BP or some kind of a pension-tested guaranteed minimum income. In order

to prevent important income losses for elderly persons, European policymakers could perhaps add a rule that states that no pensioner at the bottom of the income distribution should lose from the reform (in net terms). Such a proposal should consider not only the level of the new benefit in comparison with the old one, but also the interaction with the tax system, with other (means-tested) benefits and “derived rights.”

#### 4. Crosscutting European Issues: Some Options and Pitfalls

As has been pointed out several times in the previous section, each aspect of the scheme involves a discussion about the extent to which things must be settled at the European level. In other words, if the EU's role is to be limited to setting minimum standards, the question is which aspects of a BP should be subsumed under this heading. Issues that largely affect the cost of the programme should be settled at the European level; this is why we argued for a *European* universal BP in the first place. Therefore, the EU should logically play a role in establishing the level of the benefit and the definition of the target group (coverage) and entitlement criteria. Although financing could be left entirely to the member states (Atkinson et al. 2002, p. 231), maybe there is some role for the EU in this area as well, especially with regard to the accommodation of intra-EU migration.

The definition of the target population and entitlement criteria, and the level of the benefit and financing should be considered jointly. If policymakers opt for a BP that is the same for all European citizens, the amount should be sufficiently high to be of some meaning to the inhabitants of the richer member states. However, with median incomes in the UK 4.5 times higher than in Bulgaria and GDP per capita over 3 times higher, two important remarks must be made. First, a BP as high as the UK's poverty threshold in EU research is still 2.7 times higher than the Bulgarian median income.<sup>18</sup> If a BP is to be adequate, its level must be high enough in all member states. Yet, a uniform BP that is adequate for the richer member states, turns out to be too high in the poorest member states if compared to their average living standard.<sup>19</sup> Therefore, *if* some European dimension is desirable, a mix of the average European and national living standards is probably a better option. Second, even in this mixed scenario, the

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<sup>18</sup> Author calculations based on figures from Eurostat (2009). Net disposable household incomes in purchasing power standards and equivalised to adapt incomes to household size. The EU at-risk-of-poverty rate uses an income threshold as high as 60 percent of the national median of net disposable equivalised household income.

<sup>19</sup> This is especially the case if the BP is targeted to particular groups and not to all. It seems absurd to make the Bulgarian elderly much richer than persons at working age. The discussion would be different if all Bulgarians would receive a BI.

financial resources to provide a BP are more limited in the least wealthy member states. Therefore, national resources would not suffice (if the BP scheme is not to disrupt their economies and social policy expenditures). There are at least three alternative ways to finance such a scheme. One involves direct redistribution from richer to poorer member states (via a special fund established for this purpose). Another uses general revenues of the EU and establishes a fund analogous to the Cohesion Fund – or as in the proposal of Schmitter and Bauer (2001) the use of the regional and structural funds and the resources of the Common Agricultural Policy programmes for a BP. Another way could be to levy a Europe-wide tax. For instance, such a tax could take the form of a Tobin tax – i.e., a tax on capital transfers – or a corporate income tax. However, such a tax would require a preceding process of harmonization and could lead to economic dislocation. A third possibility is a European tax on energy. This and similar ideas have been advocated by the European Commission since 1992, and by several other actors since then (European Commission, 2004a; Le Cacheux, 2007). Such a tax would bring substantial revenues for the EU (European Commission, 2004b) and would involve redistribution from richer to poorer member states. However, it would not necessarily involve a direct transfer from one government budget to another.

If the level of the benefit would differ among member states and the bulk of financial resources is to be provided by the member states themselves (especially in the richer states), there could be a reasonable concern about intra-EU migration (and social tourism in particular). Is it reasonable to expect national governments to finance a BP for persons who moved to their member state on their 65<sup>th</sup> birthday? Although it would compromise the unconditionality of the BP and it would complicate the calculation of the benefit level, it seems advisable that in such cases the level of the benefit would depend on the number of years one has resided in each country one has lived in. For instance, the benefit could be equal to the sum of the benefits in each of these countries, weighted by the relative number of years of residence in each country respectively. Such an arrangement would be in line with the present EU regulation of social security rights for migrant workers (Rottiers, 2008, pp. 363–364). However, for example, people who have worked 20 years in Bulgaria and 20 years in the UK risk receiving an inadequate BP if they continue to live in the UK. Furthermore, information about the number of years one has resided in each country is not available everywhere (or centralised), which means that the introduction of such a BP scheme does not seem feasible in the near future. Therefore, a different solution could be that of using European resources to finance the BP of migrant



workers. This would relieve poorer member states with many emigrant workers of a substantial cost and enhance their capacity to provide an adequate BP for their elderly, and it would offset the potential cost of social tourism to richer member states, although overall intra-EU mobility is relatively limited (Ilzkovitz et al., 2007, pp. 22–24). Such a regulation would provide incentives for member states to promote (short-time) intra-EU migration.

A last issue to examine concerns EU enlargement and the legal enforcement of the right to a BP. The EU could – in order to compel member states to provide the BP – anchor it in the Treaty (Vandenbroucke, 2002). Apart from this, the issue of future enlargements should be given special consideration. First, there is the question how much time new member states would be given to adapt to the European regulation with regard to a basic pension. Second, it should be established from what point in time citizens of new member states could be entitled to the BP in other member states. Third, if the benefit level or target group is defined in a *European* context, policy makers have to make clear how changes in European income and age structures will be accounted for, especially if it would entail some reduction in benefit level or change in the population of persons entitled to the BP. For instance, if the benefit level is set at a percentage of average or median income in the EU, the accession of less wealthy countries to the EU could lead to a lower average or median income and consequently also to a lower benefit level. Obviously, such an evolution is to be avoided, not only from a poverty perspective, but also because such a mechanism could give rise to strong resistance against future enlargements.

## 5. Three Potential Scenarios for a European Basic Pension

How do all these options add up to coherent proposals for a European BP? Although the precise specifications of a BP scheme are up to politicians and policy makers, we believe that the ultimate design will fall into one of the following three categories, which can be situated on a continuum from a purely European to a purely national BP scheme.

At one extreme is a universal BP with equal benefits in all member states (taking differences in prices into account), benefits adapted to the household situation using the same equivalence scale all over the EU and provided by the EU. Benefits are defined as a certain percentage of the median or average income within the EU. The BP is completely tax free to ensure that the benefit is the same for everyone in net terms. Benefits are automatically granted to a target group defined at the EU-level (as a certain percentage of the total population in the EU

or using a strict age limit or any other uniform criteria). The BP is financed by a European fund similar to the Cohesion Fund. Such a scheme may seem simple (and so it is in many respects), and it effectively solves the problem of migration within the borders of the EU that could arise from other designs. Nevertheless, it would require that the EU disposes of major administrative capacities. Furthermore, it probably cannot be reconciled with the subsidiarity principle, it neglects the relativity of income and poverty at the national level, and it could provide disincentives for national governments to provide a decent standard of living for the elderly. Additionally, such a scheme ignores (variations in) economies of scale at the household level and presupposes that – if necessary – international transfers from richer member states to the elderly in poorer member states or from relatively young populations to relatively old populations are desirable and politically feasible.

At the other extreme, EU governments agree to implement a BP in each member state, leaving all details of its design and implementation to the member states. In other words, national governments themselves define the target group, the level of the benefit, the way it is updated over time and the equivalence scale used to compensate for economies of scale within households. The way it is to be financed and whether, and if so how, it is to be taxed is also left to national member states. For migrants, the level of the benefit depends on the number of years EU citizens resided in the respective member state. Clearly, such a scheme solves many of the problems we identified in the case of the purely European scheme. However, it would result in a scheme that does not resolve properly the issue of intra-EU migration. Furthermore, it does not ensure a decent BP in each member state and leads to very different benefits for the elderly of different member states, not only because member states themselves can define the level of the BP, but also because of differing national tax and benefit rules. Additionally, it ignores the relatively limited resources in poorer member states, and it is a very limited version of a *European social sharing scheme*. In other words, in the purely national scenario the EU's elderly are likely to be treated differently along national lines, not only with regard to the target group but also with regard to the level of the benefit.

The third category, a hybrid of the two schemes above, can take many forms. It is the most complex one that could try to integrate the strengths of both extremes. Probably, it is the most promising way to achieve some kind of European social sharing scheme. Given the minimum income guarantees already in existence in most EU member states, such a reform would entail bigger changes in one country than in another. In order to make the reform more

palatable, we therefore suggest a two-step procedure. In a first wave of reforms all member states should provide a conditional minimum income to all the elderly, with a benefit level and target group defined at the European level (the only innovation in the case of Denmark and the Netherlands in this phase). The second wave of reforms would convert these schemes into unconditional (but not necessary fully individualised) BP schemes. As far as its hybrid structure is concerned, the BP could follow uniform rules in all member states, but with results adapted to the situation in each member state. For instance, benefits could be defined as a certain percentage of the median or average income within each member state and be tax free. Instead of applying the same equivalence scale in each member state, member states could be asked to calculate the equivalence scales using a uniform method to assess economies of scales within households. Benefits are automatically granted to a target group that could be defined uniformly as a certain percentage of the national population (or some other formula to take different, and changing, age structures into account). Financing and administration could be left to national governments, but at the same time, European funds could be foreseen to ensure that migrant workers in richer member states could benefit from the same BP as the other elderly in that member state as well as to support less wealthy member states in implementing the BP scheme. Of course, this scenario also has some of the drawbacks mentioned earlier. Nonetheless, there is more room to maximise the strengths and minimise the shortcomings of the scheme.

## 6. Conclusion

If a European BP is desirable, what form should it take? In this article we explored the various options and pitfalls in the design and implementation of such a scheme. Numerous decisions – partly independent – have to be made, and the choices and issues that seem to be largely technical at first sight can have a very large impact on the population that will ultimately benefit from a BP, the level of the benefit, the financial cost of the scheme and the most appropriate organisational structure. In other words, these technical choices entail far-reaching ethical, political and distributive consequences. As we have tried to show, being in favour of BI is one thing, designing a scheme that fits all necessary and desirable conditions is another. We hope that our article helps to refocus the debate on the various aspects that should be taken into account in the concrete design of a (European) BP scheme.

## Appendix

**Table 1. Rates of at risk of poverty, EU27, 2007**

	<i>Total Population (%)</i>	<i>Ages 0-17 (%)</i>	<i>Ages 18-64 (%)</i>	<i>Ages 65 + (%)</i>
EU27	16	19	15	19
Austria	12	15	11	14
Belgium	15	17	13	23
Bulgaria	14 <sup>P</sup>	18 <sup>P</sup>	12 <sup>P</sup>	18 <sup>P</sup>
Cyprus	16	12	10	51
Czech R.	10	16	8	5
Denmark	12	10	11	18
Estonia	19	18	16	33
Finland	13	11	11	22
France	13	16	12	13
Germany	15 <sup>P</sup>	14 <sup>P</sup>	15 <sup>P</sup>	17 <sup>P</sup>
Greece	20	23	19	23
Hungary	12	19	12	6
Ireland	18	19	15	29
Italy	20	25	18	22
Latvia	21	21	18	33
Lithuania	19	22	16	30
Luxemburg	14	20	13	7
Malta	14	19	12	21
Netherlands	10	14	9	10
Poland	17	24	17	8
Portugal	18	21	15	26
Romania	19	25	17	19
Slovak R.	11	17	9	8

**Table 1. (continued)**

	<i>Total Population (%)</i>	<i>Ages 0-17 (%)</i>	<i>Ages 18-64 (%)</i>	<i>Ages 65 + (%)</i>
Slovenia	12	11	10	19
Spain	20	24	16	28
Sweden	11	12	10	11
UK	19	23	15	30

*Source:* Eurostat, 2009.

*Note:* <sup>p</sup> Provisional data.

**Table 2. Minimum income protection for the EU's elderly, mid-2000s**

	<i>Minimum Pension</i>	<i>Pension Supplement</i>	<i>Minimum Income</i>			<i>Social Assistance</i>
			<i>BI</i>	<i>Conditional BI</i>	<i>Means-tested</i>	
Austria	x				x	
Belgium	x				x	
Bulgaria	x				x	
Cyprus	x			x		
Czech Rep.	x					x
Denmark	x	x	x			
Estonia	x			x		
Finland					x	
France	x				x	
Germany					x	
Greece	x	x			x	
Hungary	x				x	
Ireland	x				x	
Italy		x			x	

**Table 2. (continued)**

	<i>Minimum Pension</i>	<i>Pension Supplement</i>	<i>Minimum Income</i>			<i>Social Assistance</i>
			<i>BI</i>	<i>Conditional BI</i>	<i>Means- tested</i>	
Latvia	x			x		
Lithuania	x				x	
Luxembourg	x					x
Malta	x				x	
Netherlands			x			
Poland	x					x
Portugal	x				x	
Romania						x
Slovakia					x	
Slovenia	x	x			x	
Spain	x				x	
Sweden				x	x	
UK	x				x	

**Sources:** European Commission, 2006, 2008; Social Protection Committee, 2006; various contributions to Immergut et al., 2007; Goedemé and Raeymaeckers, 2008; OECD, 2007.

**Note:** For descriptions of the categories, see text. Social assistance is indicated only if a minimum income is not available. In some cases a minimum pension is provided only to some socio-professional groups, not to all the insured. In Austria the minimum pension is offered to only a limited group. Sources regularly contradict each other. In these cases, the web site of the relevant Ministry was consulted.

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